HOUSING MARKET OUTLOOK
Greater Toronto Area

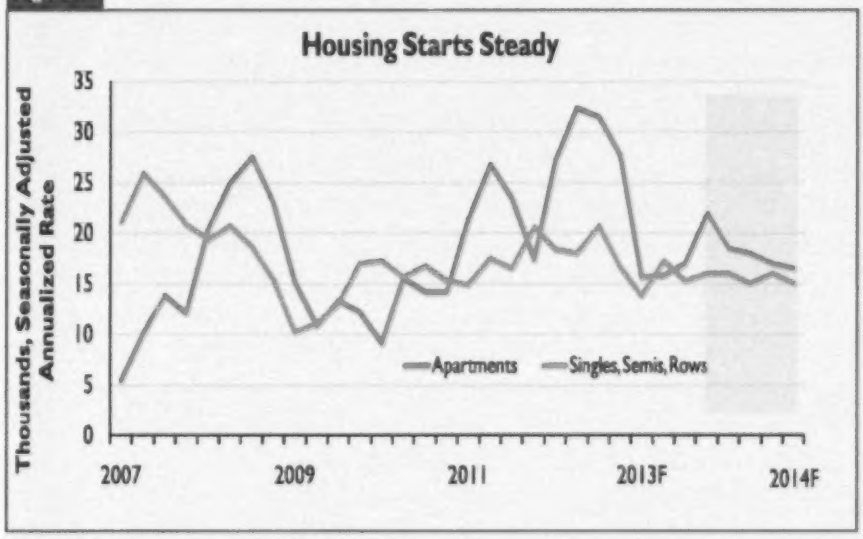
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fall 2013

Highlights

- Total starts will ease in 2014 with activity shifting to semis and rows from singles and apartments.
- Gradually rising mortgage rates will keep existing home sales growth modest.
- Rising home values will keep more people in rental but more condo rentals will keep supply in balance with demand.
- After lagging in 2013, income growth will match broadly based employment growth.

Figure 1



Source: CMHC, Starts and Completions Survey.

The forecasts included in this document are based on information available as of October16 2013.

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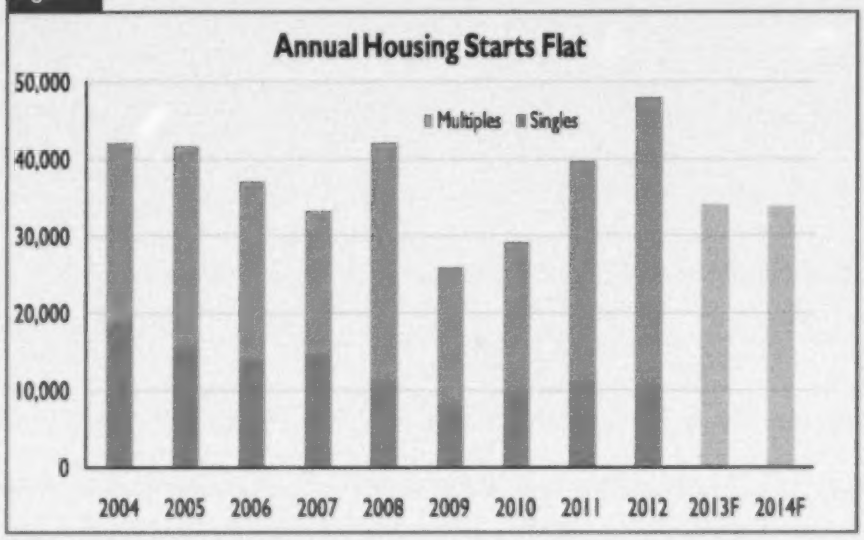
New Ownership Market

New home starts in 2013 will be down from the unusually high level of last year. Household formation in Toronto is slowing from an average annual rate of 37,000 in the inter-censal period between 2006 and 2011, and at 34,000, total housing starts in 2013 will roughly match household formation.

The decline in starts will occur across all housing types. Most of the decline will occur among apartment starts. Sales of new condominium apartments slowed in the second half of 2012 and continued to ease in 2013. The slowing meant that not only were there fewer apartments to build, but also that it took longer for the projects to move from sales launch to the beginning of construction. A relatively large number of projects have sold a sufficiently high percentage of units to permit construction to begin, setting the potential for a high number of starts in the fourth quarter. However, apartment starts will continue to be restrained by the high number already under construction. Looking to 2014, apartment starts will ease somewhat from the 2013 level. The relatively high number of projects that began selling during 2011 but still have to lay foundations will limit the decline. Completions will exceed starts through most of the year implying the number of units under construction will decline as the year progresses, freeing up resources to allow new projects to start.

Although most units continue to be sold by the time projects reach completion, slower sales have led to a rise in the number of unsold units at all phases of development, according to Urbanation. As a result, asking prices for new units have flattened and prices at project launch have declined from a year ago. Given the price adjustment, sales are expected to pick up in the fourth quarter and into 2014.

Figure 2



Source: CMHC, Starts and Completions Survey.

After bottoming out at the turn of the year, sales of semi-detached and row homes have been trending up for most of 2013, according to Realnet. Starts of both will be up in the fourth quarter and further growth is expected in 2014. Despite the growth, neither will match the levels achieved in 2012. The stronger growth in demand for these dwelling types reflects some shift away from singles, where rising prices are curtailing demand. Price growth for new singles slowed in the third quarter, coinciding with an acceleration of prices for singles in the existing home market. This will encourage some more buyers to consider a new home, however, starts will still be moving down from current levels.

The average price of a new single-detached home will be up nearly nine per cent in 2013, but the rate of increase has been slowing from the second quarter. Although land constraints will continue to put upward pressure on price, the strong price increase this year will likely limit demand growth in 2014 and both the median and average price will be increasing at much slower rates. The median price will continue to lag the average price in 2013, indicating some very expensive homes continue to pull up the average price. In 2014, the median will rise somewhat faster than the average, with demand for homes in the highest price ranges slowing the most.

Existing Home Market

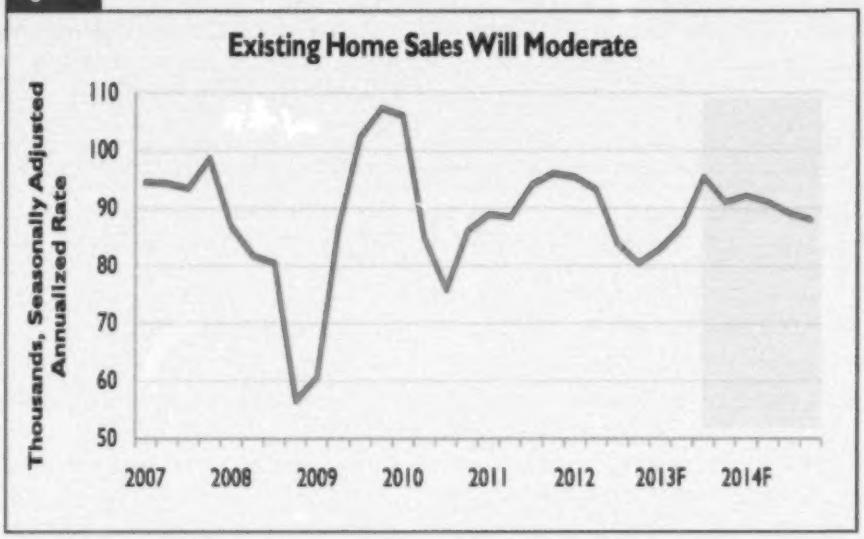
Existing home sales strengthened considerably in the third quarter of 2013 as an increase in mortgage rates convinced many potential homebuyers that it was the right time to purchase. Although the urgency subsequently diminished, the expectation that mortgage rates will be rising will be a factor supporting sales in the fourth quarter and into 2014. Sales will ease in the second half of 2014 as many potential buyers will have completed their purchases and an expected

modest increase in mortgage rate will dampen sales. Despite the easing in the second half, annual MLS® sales in 2014 will be up modestly from 2013, as stronger income growth will support demand.

New listings decreased in the third quarter, but the stronger price increase will draw out more listings in the fourth. Listings will continue to grow next year, particularly listings for condominium apartments. The number of condominium apartment completions could surpass the previous record of nearly 18,000 set in 2011. When completed condominiums are registered, owners have an opportunity to move in, rent out the unit or sell. In recent quarters, fewer have been selling and more have been renting through MLS® which will limit the increase in listings. Nevertheless, condominium apartments will remain the coolest part of the existing home market with prices remaining nearly flat for most of the year.

Listings for other dwelling types will tend to move in tandem with sales. The sales-to-new-listings ratio will ease slightly and the market will remain in balance throughout 2014. In this environment, price growth will be slow over the course of 2014. Despite slowing price growth, the income required to purchase a home at the average MLS® price will continue to rise faster than average incomes. First-time homebuyers were active in early 2013 and likely a part of the sales surge in the third quarter. However, making a purchase will become a greater challenge for them during 2014. A number of sub-markets, particularly in Durham Region, are more accessible for first-time buyers, but they are also among the tightest resale markets in the GTA.

Figure 3



Source: CREA, CMHC forecast

Rental Market

The vacancy rate for purpose-built rental units will finish 2013 unchanged from last year. The average rent for a purpose-built two-bedroom apartment will increase to $1,215.

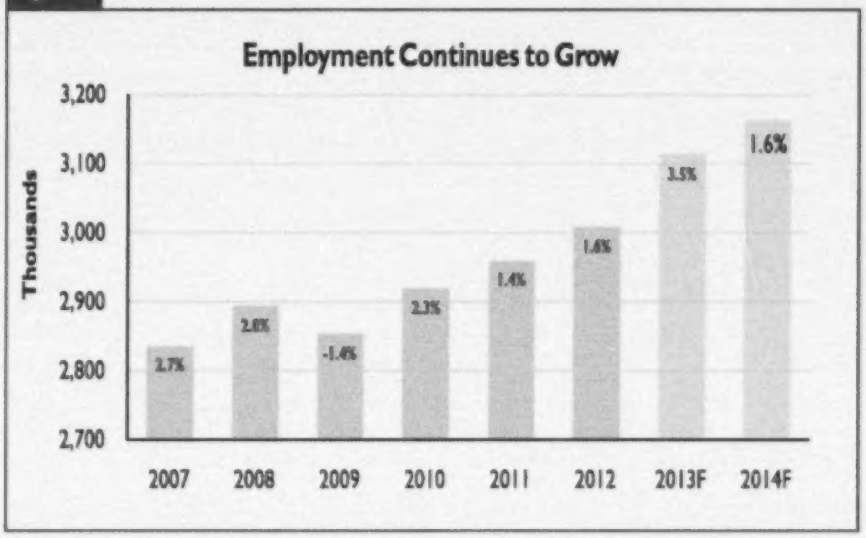
The strong growth in employment in 2013 will keep overall rental demand relatively strong. In general, the vacancy rate declines along with a declining unemployment rate. Rising employment encourages some renters to become home-owners, which lessens rental demand, but it encourages even more people to enter the rental market. Modest wage growth and relatively stronger growth in part-time employment compared to full-time employment will also support rental demand. While demand is growing, the supply of purpose-built rental units is not. In 2013, only about 600 new units were added to the purpose-built rental universe. Investor-owned condominium apartments have become the major source of new rental accommodation. Rents for units rented through the MLS® system have been increasing faster than inflation, indicating that this market remains relatively tight. With the market for rented condos tight, rents in the purpose-built rental market will increase by close to the 2.5 per cent allowed by the provincial guideline.

In 2014, immigration will increase and more renters will stay in their current apartments rather than moving into homeownership, leading to more rental demand. With only 500 rental starts expected in 2013 and a similar amount in 2014, growth in the supply of purpose-built rental accommodation will continue to be minimal. However, the number of investor-owned condos entering the market will increase in 2014. The vacancy rate will continue to remain low — 1.8 per cent in the purpose-built market — but rent increases will likely be smaller than in 2013. In the purpose-built market, with more renters staying in their current apartments and a low provincial guideline increase, the average two-bedroom rent will increase marginally.

Economic Trends

Throughout 2013, the economy in Toronto has seen a steady decrease in unemployment as a result of strong employment growth. Although the four per cent employment growth of the first three quarters of 2013 will not be sustained for the full year and through 2014, the average unemployment rate will fall to be 7.7 per cent 2014, the lowest unemployment rate since the economic downturn in 2008. Employment gains in 2013 were concentrated in construction and business services. Business services will continue to grow in 2014 but residential construction employment may ease in 2014 as the number of homes under construction diminishes. However, non-residential construction will continue to be strong, while strengthening recovery in the US will benefit employment in manufacturing and trade. Finance, insurance and real estate will perform well, but employment growth in areas related to government such as health, education and public administration will lag other sectors. Part-time employment outpaced full-time employment in 2013. In 2014, the Toronto labour market is expected to see a shift to full time positions in favour of part time ones as employers seek to capitalize on the economy's positive momentum. This will mean that the modest growth in weekly earnings of 2013 will strengthen through 2014.

Figure 4



Source: Statistics Canada Labour Force Survey, CMHC forecast

Migration accounts for close to two-thirds of population growth and household formation in Toronto. In the last few years, the number of people moving to Toronto from other provinces roughly matched the number moving to other provinces, but in the year ending June 2013, the balance shifted in favour of western Canada. At the same time, net gains from international migration diminished. The strengthening US recovery, notwithstanding pauses as debt and budgetary issues are sorted out, will be of relatively greater benefit to Ontario than western Canada as Ontario employment is more strongly correlated to cyclical movements in the US economy. As Ontario becomes more attractive to job-seekers, both international and interprovincial migration will return to their usual patterns in Toronto.

Mortgage Rate Outlook

- Mortgage rates to see modest and gradual increases late in the forecast horizon but will remain low by historical standards.
- Following the June meeting of the Federal Open Market Committee (FOMC) of the U.S. Federal Reserve Board, interest rates rose modestly and then remained steady in both the U.S. and Canada. According to the Federal Reserve Bank of New York, this reflected a change in the risk assessment of investors and not a change in the expected future path of interest rates[1].
- CMHC's interest rate forecast mirrors this view. Hence, mortgage rates have been slightly revised up in the third quarter of 2013 but, thereafter, follow the same interest rate path as before. Nevertheless, this interest rate outlook will continue to be supportive of housing market activity over the forecast horizon, as mortgage rates will remain low by historical standards.
- Mortgage rates are expected to

[1] "Preparing for Takeoff? Professional Forecasters and the June 2013 FOMC Meeting." Federal Reserve Bank of New York (2013). Richard Crump, Stefano Eusepi, and Emanuel Moench (http://libertystreeteconomics.newyorkfed.org/2013/09/preparing-for-takeoff-professional-forecasters-and-the-june-2013-fomc-meeting.html)

increase gradually and steadily over the forecast horizon. By the end of 2014, mortgage rates are forecast to be somewhat higher than in the third quarter of 2013. According to CMHC's base case scenario for 2013, the average for the one-year posted mortgage rate is forecast to be within 3.00 per cent to 3.50 per cent, while the average for the five-year posted mortgage rate is anticipated to be within 5.00 per cent to 5.50 per cent. For 2014, the average for the one-year posted mortgage rate is expected to rise and be in the 3.25 per cent to 3.75 per cent range, while the average for the five-year posted mortgage rate is forecast to be within 5.25 per cent to 6.00 per cent.

Mortgage rates		
1 Year	Q3 2013	3.14
	Change from Q3 2012	0.04
	2013 (F)	3.00 - 3.50
	2014 (F)	3.25 - 3.75
5 Year	Q3 2013	5.27
	Change from Q3 2012	0.03
	2013 (F)	5.00 - 5.50
	2014 (F)	5.25 - 6.00

Source: Bank of Canada, CMHC Forecast
NOTE: Mortgage rate forecast is based on Q3 2013 data

Trends at a Glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Long-term mortgage rates will be increasing gradually over the course of 2014, giving the market time to adjust to the new environment.
Employment	Employment growth to slow from the rapid pace in 2014. The growth will support demand for all types of housing, but rental demand will benefit the most.
Income	Weekly earnings growth to strengthen in 2014, as newly hired workers gain experience and employment growth becomes more broadly based.
Net Migration	On balance, international and interprovinical migration will contribute more to population growth in 2014 than in 2013. The impact will be most noticeable in the rental market where the increased demand will offset increased supply coming from newly completed condominium apartments.
New Home Market	Housing starts will ease slightly in 2014. Rapid growth in the price for new single-detached homes will shift demand to more affordable low-rise options such as semi-detached and row homes.
Existing Home Market	Resale market tightening in mid-2013 will lead to some strengthening of new home demand in late 2013 early 2014. Higher listings will keep price growth subdued in 2014.

Risks to the Forecast: Downside Risks

Despite some signs of moderation in the growth of household credit, elevated levels of household debt and house prices in some urban centres have made the country's economy more vulnerable to some economic shocks. If interest rates or unemployment were to increase sharply, some of the more heavily indebted households could be forced to liquidate some of their assets, including their home. This could put downward pressure on house prices and, more generally, on housing market activity. Although this risk can arise in the shorter term, its impact would not be immediate on most indebted households because of the prevalence of fixed mortgage terms.

Capacity constraints and achieving sales targets could prove to be bigger challenges than expected, keeping condominium apartment starts lower than forecast.

The rise in prices for new single-detached homes may dampen demand more than anticipated, keeping single starts lower than forecast.

Given the high number of condominium units under construction, completions may be higher than expected and listings in the resale market may be higher than forecast.

Upside Risks

US and global growth, particularly in China, could exceed current expectations leading to stronger than anticipated employment and income growth in Toronto. The largest impact would be on MLS sales, but starts also would be higher-than-forecast in these circumstances.

Forecast Summary Toronto CMA Fall 2013	2010	2011	2012	2013f	% chg	2014f	% chg
New Home Market							
Starts:							
Single-Detached	9,936	11,247	10,699	9,800	-8.4	9,500	-3.1
Multiples	19,259	28,498	37,406	24,200	-35.3	24,400	0.8
Semi-Detached	1,654	2,010	2,253	2,000	-11.2	2,200	10.0
Row/Townhouse	4,365	4,231	5,536	4,200	-24.1	4,700	11.9
Apartments	13,240	22,257	29,617	18,000	-39.2	17,500	-2.8
Starts - Total	29,195	39,745	48,105	34,000	-29.3	33,900	-0.3
Average Price ($):							
Single-Detached	606,617	658,063	672,318	733,000	9.0	740,000	1.0
Median Price ($):							
Single-Detached	517,900	557,990	577,900	615,500	6.5	624,000	1.4
New Housing Price Index (1997=100) (Toronto-Oshawa)	2.6	4.7	5.1	2.4		2.3	
Resale Market							
MLS® Sales	88,214	91,760	88,157	89,000	1.0	90,000	1.1
MLS® New Listings	154,167	148,048	158,982	159,600	0.4	162,800	2.0
MLS® Active Listings	18,709	16,423	17,931	18,600	3.7	18,800	1.1
MLS® Average Price ($)	432,264	466,352	498,973	514,000	3.0	521,500	1.5
Rental Market							
October Vacancy Rate (%)	2.1	1.4	1.7	1.7	0.0	1.8	0.1
Two-bedroom Average Rent (October) ($)	1,123	1,149	1,183	1,215	-	1,220	-
Economic Overview							
Mortgage Rate (1 year) (%)	3.49	3.52	3.17	3.00 - 3.50	-	3.25 - 3.75	-
Mortgage Rate (5 year) (%)	5.61	5.37	5.27	5.00 - 5.50	-	5.25 - 6.00	-
Annual Employment Level	2,919,400	2,960,000	3,008,200	3,113,000	3.5	3,163,000	1.6
Employment Growth (%)	2.3	1.4	1.6	3.5	-	1.6	-
Unemployment rate (%)	9.1	8.3	8.6	8.0	-	7.7	-
Net Migration	68,492	65,776	66,019	60,000	-9.1	66,000	10.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

Forecast Summary Oshawa CMA Fall 2013							
	2010	2011	2012	2013f	% chg	2014f	% chg
New Home Market							
Starts:							
Single-Detached	1,540	1,384	1,155	980	-15.2	1,000	2.0
Multiples	348	475	648	520	-19.8	490	-5.8
Starts - Total	1,888	1,859	1,803	1,500	-16.8	1,490	-0.7
Average Price ($):							
Single-Detached	378,405	375,970	407,418	430,000	5.5	436,000	1.4
Median Price ($):							
Single-Detached	354,295	349,990	377,990	398,000	5.3	404,500	1.6
Resale Market							
MLS® Sales	9,479	9,604	10,288	9,900	-3.8	9,900	0.0
MLS® New Listings	16,492	15,767	15,349	15,100	-1.6	15,402	2.0
MLS® Active Listings	2,299	2,115	1,790	1,850	3.4	1,900	2.7
MLS® Average Price ($)	299,983	314,450	333,202	352,000	5.6	360,000	2.3
Rental Market							
October Vacancy Rate (%)	3.0	1.8	2.1	2.0	-0.1	2.2	0.2
Two-bedroom Average Rent (October) ($)	903	941	939	960	-	965	-
Economic Overview							
Mortgage Rate (1 year) (%)	3.49	3.52	3.17	3.00 - 3.50	-	3.25 - 3.75	-
Mortgage Rate (5 year) (%)	5.61	5.37	5.27	5.00 - 5.50	-	5.25 - 6.00	-
Annual Employment Level	188,200	193,500	193,600	197,470	2.0	201,420	2.0
Employment Growth (%)	5.7	2.8	0.1	2.0	-	2.0	-
Unemployment rate (%)	10.0	8.1	8.7	8.2	-	7.8	-

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Toronto Real Estate Board, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly Starts and Completions Survey. Building permits are used to determine construction sites and visits confirm construction stages. A start is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's Market Absorption Survey, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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